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### G85-769 Options Contract Specifications On Grain Futures Contracts

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## Options Contract Specifications On Grain Futures Contracts

This publication, the second of six NebGuides on agricultural grain options, explains specifications and uses of futures contracts for corn and soybean trading.

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Before using options on agricultural futures contracts, it is essential to understand what constitutes an options contract.

This publication outlines contract specifications of corn and soybean options on corresponding futures contracts presently traded at the Chicago Board of Trade (CBT).

All contract specifications are discussed including: price quotations, maximum and minimum price fluctuation figures, and last trading day for an option. How strike prices and premium values are determined in relation to futures contract prices also will be explained. For other commodity specifications at different exchanges, contact the specific exchange or a broker.

### Contact Specifications

Presently, trading in corn and soybean futures options contracts is available at the Chicago Board of Trade. Corn options are traded on the March, May, July, September, and December corn futures contracts. Soybean options are traded on the January, March, May, July, August, and November soybean futures contracts.\* Options represent underlying futures contracts. Thus, options specifications are related to price. The futures contracts they represent have their own specifications such as: the basic trading unit and deliverable grade. Complete specifications for corn and soybeans options are outlined below:

<b>Corn Options— Chicago Board of Trade</b>	
Premium Price Quotation	Cents and one-eighth cents per bushel
Premium Minimum Fluctuation	1/8 cent per bushel (\$6.50 per contract)
Premium Daily Price Limit	10 cents per bushel (\$500 per contract) above and below the previous day's settlement price
Trading Hours (Chicago Time)	9:30 a.m. to 1:15 p.m.
Last Trading Day	No trading can take place past 12:00 noon on the last Friday preceding, by at least ten business days, the first notice day for the corresponding futures contract. The first notice day is the last business day of the month preceding the delivery month.
Expiration Day	The Saturday following the last trading day
Date Trading Began	February 27, 1985
<b>Soybean Options — Chicago Board of Trade</b>	
Premium Price Quotation	Cents and one-eighth cents per bushel
Premium Minimum Fluctuations	1/8 cent per bushel (\$6.50 per contract)
Premium Daily Price Limit	30 cents per bushel (\$1500 per contract) above and below the previous day's settlement price
Trading Hours (Chicago Time)	9:30 a.m. to 1:15 p.m.
Last Trading Day	No trading can take place past 12:00 noon on the last Friday preceding, by at least ten business days, the first notice day for the corresponding futures contract. The first notice day is the last business day of the month preceding the delivery month.
Expiration Day	The Saturday following the last trading day
Date Trading Began	October 30, 1984

### **Establishing Strike Prices**

Options price quotes list strike prices and premium values for both puts and calls:

Options						
Soybeans (CBT) 5,000 bu.; cents per bu.						
Strike Price	Calls - Settle			Puts - Settle		
	Aug-Call	Nov-Call	Jan-Call	Aug-Put	Nov-Put	Jan-Put
525	--	--	--	2	4	--
550	20	21 1/4	--	4	12 1/4	20
575	6 1/4	12	28	15	28	32
600	2 5/8	7 1/2	20	36	48 1/2	48
625	1 1/2	6	14	59	71 1/2	66
650	1/2	3 1/2	11	84	92	--

Strike prices occur at ten cent intervals for corn and twenty-five cent intervals for soybeans. Initial strike prices are determined by futures contracts closing prices. When the current options contract goes off the board (the last trading day), the closing price of the distant contract month is noted. This base price is then rounded to the nearest 10 cents to establish distant options strike prices. When this price is determined, appropriate intervals are applied (10 cents for corn, 25 cents for soybeans) to establish additional strike prices. Two strike prices are established above the base strike price and two strike prices are established below the strike price. For example, suppose that on the last trading day of the September '85 corn futures options contract, the closing price on the most distant '86 corn futures contract was \$2.68. This price is rounded to the nearest 10 cents (\$2.70) and becomes the base strike price for September '86 corn options. Additional strike prices of \$2.50, \$2.60, \$2.80, and \$2.90 are established. Several strike prices allow the options trader to choose the particular futures option that best suits his needs. If futures prices increase, additional call and put options will be introduced with higher strike prices. If futures prices decrease, additional call and put options with lower strike prices will be established.

### Establishing Premium Values

Options are traded the same way futures contracts are traded: through open outcry of competitive bids and offers on the trading floor of the exchange. The negotiated price is the premium. Pricing increments on grain options premiums are one-eighth of a cent. On the trading floor, daily minimum price fluctuation of the premium value is one-eighth of a cent. The daily price unit or maximum fluctuation is 30 cents/bushel on soybeans and 10 cents/bushel on corn above and below the previous day's settlement price.

### Conclusion

Before a producer utilizes agricultural options, he must understand contract specifications and how strike prices and premium values are determined. Options contracts represent underlying futures contracts and the commodity associated with the futures contract.

Traders of grain options contracts buy or sell option contracts at specific strike prices. Strike prices are determined systematically from closing prices of the underlying futures contract. When the current

options contract expires, the closing price of the most distant contract month is used to establish the base strike price on the following year's options contract.

Premiums are determined in the trading pit by open outcry. Premiums are quoted in one-eighth cent increments. The minimum price fluctuation of premium values is one-eighth of a cent on both corn and soybeans. The maximum price fluctuation is 30 cents/bushel on soybeans and 10 cents/bushel on corn.

## **AGRICULTURAL GRAIN OPTIONS**

This series includes the following NebGuides which may be obtained at your local Cooperative Extension Service office.

- *G85-768, Basic Terminology for Understanding Grain Options*
- *G85-769, Options Contract Specifications on Grain Futures Contracts*
- *G85-770, An Introduction to Grain Options on Futures Contracts*
- *G85-771, Evaluating Grain Options Versus Futures Contracts*
- *G85-772, Using Grain Options to Follow a Rising Market*
- *G85-773, Evaluating Pricing Opportunities with Grain Options*

\*Options are currently not traded on the September soybean futures contracts, but may be added in the future.

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